

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF TAPESTRY HEALTH  
SYSTEMS, INC., FINANCIAL  
MANAGEMENT SYSTEMS RELATED TO  
THE TITLE X FAMILY PLANNING  
PROGRAM**



**JUNE GIBBS BROWN  
Inspector General**

**MAY 2000  
A-01-99-01504**

# ***OFFICE OF INSPECTOR GENERAL***

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The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.





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May 2, 2000

CIN: A-01-99-01504

Ms. Lesley Tarr Laurie  
President/CEO  
Tapestry Health Systems, Inc.  
16 Center Street  
Northampton, Massachusetts 01606

Dear Ms. Laurie:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Audit of Tapestry Health Systems, Inc. Title X Financial Management Systems." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to the actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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To facilitate identification, please refer to Common Identification Number A-01-99-01504 in all correspondence relating to this report.

Sincerely yours,

  
William J. Hornby  
Regional Inspector General  
for Audit Services

Enclosures -- as stated

Direct Reply to HHS Action Official  
Grants Management Officer, Office of Family Planning  
Office of Population Affairs, PHS  
East West Towers, Suite 2000, West Tower  
5600 Fishers Lane  
Rockville, Maryland 20857

## EXECUTIVE SUMMARY

### BACKGROUND

Tapestry Health Systems, Inc. (Tapestry) is a nonprofit human service organization providing comprehensive medical services throughout Western Massachusetts. Tapestry provides services within the following divisions: (1) Family Planning/Health Services; (2) Education and Training/Community Support Services; and (3) HIV/AIDS Services. The Family Planning/Health Services division offers a variety of health services, including physical exams, counseling, testing and referrals to other health service providers. Tapestry's health services are provided at ten sites throughout Western Massachusetts. The Federal government provides partial funding for the Family Planning/Health Services division through the Title X award, which was \$737,832 in calendar year (CY) 1998.

### OBJECTIVE

The objective of our audit was to determine whether Tapestry has adequate financial management systems to ensure accurate and complete disclosure of the financial results of the Federal Title X award.

### SUMMARY OF FINDINGS

Several areas in Tapestry's financial management systems were not compliant with federal regulations and need improvements. Our findings are summarized below and reported in detail in the FINDINGS AND RECOMMENDATIONS section of this report.

- Tapestry needs to improve its financial management system to identify Title X activities. Tapestry officials stated it was permissible to commingle Title X family planning expenses with all family planning expenses. However, federal regulations require identification of federally sponsored activities. Without identification, accurate and complete financial reporting of the Title X award is impossible. Had Tapestry identified Title X expenses separately, it may have (1) disclosed an unobligated balance and (2) defined its Title X cash needs differently.
- Tapestry needs to improve its systems to ensure family planning program surplus funds will be utilized to fund additional program costs as required. Tapestry officials stated its overall mission and past performance assure that surpluses will be spent on the family planning program. However, Tapestry's current financial condition creates uncertainty regarding its ability to use the surplus appropriately in the future.
- Tapestry needs to improve its system of requesting federal cash to ensure federal cash requests are related to immediate needs. Federal regulations require grantees to maintain written procedures to limit cash requests to minimum amounts needed. Tapestry does not relate its request to actual monthly expenses. Rather, Tapestry consistently requested 1/12<sup>th</sup> of the award each month. However, family planning expenses were not incurred evenly throughout the year as expenses ranged from

\$185,877 to \$229,700. Therefore, DHHS cannot be assured that funds requested are based on cash needs, or that Tapestry needed the entire Title X award. Based on concerns raised by the Office of Inspector General, National External Audit Review Center's review of Tapestry's June 30, 1998 audit report on compliance with federal regulations, Tapestry's Title X grant funds for its family planning program are now restricted and available only on a cost reimbursement basis.

- Tapestry needs to improve its cost allocation system to ensure all health service clinic space costs (rent, depreciation and utilities) are allocated to all benefiting programs. Tapestry did not allocate health service clinic space costs to the Breast Health Project and the HIV/AIDS Program as they consider such costs immaterial. However, they could not show us that the costs were immaterial and have since initiated a utilization study. Initial results indicate sufficient utilization by other programs to warrant an allocation of space costs to those programs.
- While Tapestry did improve its system for supporting salaries and wages charged to federal awards during 1998, the system still needs improvements. We found numerous problems pertaining to individual time sheets, master sheets, and required signatures. Continued improvements are necessary to ensure salaries and wages are allocated to benefiting programs in proportion to benefits received.

## **RECOMMENDATIONS**

We recommend that Tapestry implement systems that: 1) provide for identification of Title X expenses; 2) ensure family planning surplus revenues are used for family planning; 3) provide that requests for Title X funds be related to minimum amounts needed, prior to becoming eligible for the advance system of requesting funds; and 4) ensure space costs are allocated to all benefiting programs on an equitable basis. In addition, we recommend that Tapestry continue to monitor support of payroll charges to ensure proper allocation of salaries of employees working in family planning.

## **Auditee Comments and OAS Response**

In its written response to our draft report (See APPENDIX), Tapestry concurred with our recommendations and agreed to take corrective actions. However, Tapestry responded that its financial management systems regarding Title X funds have been in compliance with Federal regulations. Tapestry provided no substantive information to convince us to change our findings and recommendations. Tapestry did provide a copy of the July, 1997 Program Consultant review of the Title X project which advised that Tapestry has sufficient procedures in place to budget and account for Title X funds. However, our review of Tapestry's financial systems was more detailed than the Program Consultant review and, therefore, conclusions will vary.

Tapestry stated it is grateful that the audit found no cause to question the quality of its services or to request disallowance or return of Federal funds. However, these conclusions cannot be drawn from this report as this audit did not include a review of services provided by Tapestry or the allowability of claimed costs.

## INTRODUCTION

### BACKGROUND

Tapestry Health Systems, Inc. (Tapestry) is a nonprofit human service organization providing comprehensive medical services throughout Western Massachusetts. Tapestry receives support from various sources including, the U.S. Department of Health and Human Services (DHHS), the Massachusetts Department of Public Health (MDPH), the Medicaid program, client fees and private contributions. Tapestry's organization is comprised of three divisions providing comprehensive health services to over 12,000 clients each year. Tapestry's divisions are: (1) Family Planning/Health Services; (2) Education and Training/Community Support Services; and (3) HIV/AIDS Services.

#### *Family Planning/Health Services*

The Family Planning/Health Services division offers a wide variety of comprehensive health services, including physical exams, counseling, testing and referrals to other health service providers. Tapestry's health services are provided at ten sites throughout Western Massachusetts. Over 50 percent of Tapestry's staff work within the family planning/health service division. Tapestry's family planning program received funding from the following sources in fiscal year (FY) 1998:

- \$704,000 (28%) from the DHHS Title X grant
- \$945,000 (38%) from other grant and contract revenue
- \$308,000 (11%) from the Medicaid program
- \$572,000 (23%) from client fees, private donations and other revenue

#### *Education and Training/Community Support Services*

Tapestry's Education and Training/Community Support Services division is utilized by schools, religious and parent groups, social services, prisons and detention centers and community organizations. The division offers education, prevention and outreach programs for the entire community. Two of the major programs in this division are (1) Services for Adolescent Family Enhancement (SAFE), a welfare program for pregnant teenagers, and (2) a Supplementary Food Program for Women, Infants and Children. The division is responsible for scheduling continuous training for all of Tapestry's staff.

#### *HIV/AIDS Services*

Tapestry's HIV/AIDS division provides a range of HIV/AIDS services to clients including counseling and testing, prevention and education, outreach and harm reduction. The division also provides programs directed at the communities most at risk for contracting and spreading HIV. Tapestry devotes a sufficient number of staff to these programs in order to keep pace with the high demand for HIV/AIDS education programs.

## **OBJECTIVE**

The objective of our audit was to determine whether Tapestry has adequate financial management systems that ensure accurate and complete disclosure of the financial results of the Federal Title X award.

## **SCOPE AND METHODOLOGY**

We conducted our audit in accordance with generally accepted government auditing standards. The audit covered the period January 1, 1998 through December 31, 1998. In performing our audit, we:

- Reviewed the Massachusetts State Auditor's Report On Certain Activities of Tapestry Health Systems, Inc., dated July 2, 1999, and Tapestry's independent public accountants' (IPA's) audit reports for FY's 1998 and 1999 prepared in accordance with Office of Management and Budget Circular A-133;
- Held meetings with the state auditors and Tapestry's IPA's to discuss their audits;
- Interviewed responsible Tapestry officials;
- Reviewed federal laws, regulations and guidelines related to financial management systems of family planning service organizations;
- Reviewed Tapestry's policies, procedures, and internal controls related to its financial management systems to determine their effectiveness. For example, we:
  - Tested payroll accounts to determine whether employee time sheets accurately depicted the time spent working within each cost center;
  - Reconciled Title X-Family Planning revenue accounts to the general ledger to determine if federal funds were drawn down in relation to cash needs; and
  - Examined Tapestry's space allocation to determine if jointly used space is allocated in accordance with requirements outlined in the Public Health Services (PHS) Grant Policy Statement.

We did not assess the allowability of claimed costs nor did we assess the quality of services provided by Tapestry. We conducted our audit at Tapestry in Northampton, Massachusetts, during the period September through November 1999. We issued a draft report to Tapestry on February 24, 2000 and have appended Tapestry's comments in their entirety (See APPENDIX).

## FINDINGS AND RECOMMENDATIONS

We identified several areas in Tapestry's financial management systems, which were not compliant with federal regulations and need improvements. These areas include:

(1) Identification of federally sponsored activities; (2) System of accounting for program income; (3) Federal cash drawdown procedures; and (4) Allocation of jointly used space. In addition, Tapestry should continue to monitor support for salaries and wages to ensure proper allocation of charges to the family planning program. Until improvements are implemented, Tapestry's financial management systems do not provide adequate assurance for effective control over and accountability of federal awards.

### IDENTIFICATION OF FEDERALLY SPONSORED ACTIVITIES

Tapestry needs to improve its system to separately identify Title X expenses. Tapestry accumulates all family planning expenses in one general ledger account. This occurred because Tapestry officials thought it was permissible to commingle Title X family planning expenses with all other family planning expenses. However, federal regulations do require the identification of federally sponsored activities. Without identification of specific Title X expenses, accurate and complete financial reporting of the Title X award is not possible.

*Title 45 of the Code of Federal Regulations (CFR), Part 74, Section 74.21(b)(2) states: "Recipients' financial management systems shall provide for the following: Records that identify adequately the source and application of funds for HHS-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest."*

Tapestry records family planning revenues by funding sources in a separate general ledger account for each of the following: (1) DHHS Title X, (2) other contract revenue, (3) Medicaid program, and (4) client fees and private donations. Tapestry, however, does not record family planning *expenses* by each of the above funding sources. Instead, Tapestry accumulates all family planning expenses in one general ledger account.

Tapestry's management stated they believed criteria other than 45 CFR, Part 74, Section 74.21 allows the organization to accumulate all family planning program expenses in one general ledger account. However, the information provided by Tapestry officials did not show that other regulations or program policy directives would, in fact, allow Tapestry to accumulate all family planning expenses in one general ledger account. Although Tapestry believes other criteria may be relevant, it should be noted that 45 CFR, Section 74.1 states: "...this part establishes uniform administrative requirements governing: (1) Department of Health and Human Services' (HHS) grants and agreements awarded to...other nonprofit organizations...." Further, Section 74.1.c states: "HHS shall not impose additional or inconsistent requirements...." Since Tapestry is a nonprofit organization receiving a grant from DHHS (Title X), these cited regulations are applicable to Tapestry's financial management systems.

Tapestry cannot report the financial results of the Title X award accurately and completely, without identifying specific Title X expenses. In calendar year (CY) 1998, Tapestry's family planning revenues totaled over \$2.6 million, while family planning expenses totaled approximately \$2.5 million (resulting in a family planning surplus of approximately \$158,000). If Tapestry had identified Title X expenses separately, they may have (1) disclosed an unobligated balance (federal Title X funds authorized which have not been obligated by Tapestry) and (2) defined their Title X cash needs differently.

- *Unobligated balance* – Tapestry was authorized \$737,832 in Title X funds for CY 1998 and reported spending the total award in CY 1998. Considering that Tapestry's family planning program accumulated a \$158,544 surplus, the total family planning expenses were insufficient to obligate 100 percent of Tapestry's family planning revenues. All sources of family planning revenue should share in the surplus. However, without identifying specific Title X expenses, Tapestry could not identify a Title X unobligated balance.
- *Cash needs* – In CY 1998 Tapestry requested and received 100 percent of the Title X award. Because Tapestry did not separately identify Title X expenses, they requested approximately 1/12<sup>th</sup> of the award each month. However, monthly family planning expenses differed by as much as \$43,823 (See Federal Cash Drawdown Procedures, page eight).

As shown, the failure to separately identify Title X expenses can have an adverse effect on Tapestry's ability to accurately and completely report the financial results of the Title X award.

### **Recommendation**

We recommend that Tapestry develop and implement a system that provides for the identification of Title X expenses.

### **Auditee Response**

Tapestry agreed to implement our recommendation. However, Tapestry believes that its financial management systems regarding Title X funds have been in compliance with Federal regulations. Tapestry provided a copy of the July, 1997 Program Consultant review of the Title X project which advised that Tapestry has sufficient procedures in place to budget and account for Title X funds. Tapestry does not believe regulations require the identification of how each dollar of Title X is spent as long as costs are incurred at the amounts agreed to in the Title X budget. Further, Tapestry believes that there is no question that they did expend the Title X contract. Therefore, they believe they are in compliance with the regulations.

### **Additional OAS Comments**

Federal regulations (45 CFR Part 74) clearly require grantees to maintain records identifying the source and application of HHS-sponsored activities (i.e., Title X).

As stated on page three, accurate and complete financial reporting of the Title X award is not possible without separately identifying Title X expenditures. Tapestry maintains that all of its activities are part of the family planning program and believes spending the Federal Title X award shows the award was spent on family planning. However, Tapestry's activities include programs not funded by Title X (e.g., Needle Exchange, Tobacco Cessation, and Supplementary Food Program for Women, Infants, and Children). Therefore, spending the award does not assure that the funds were spent on family planning activities. Considering that Tapestry has such a broad range of activities, it is imperative that Federal Title X family planning expenditures be separately identified to allow accurate and complete financial reporting of the Title X award. With respect to the Program Consultant review, our review of Tapestry's financial systems was more detailed than the Program Consultant review and, therefore, conclusions will vary.

### **SYSTEM OF ACCOUNTING FOR PROGRAM INCOME**

Tapestry accumulated excess family planning program income (surplus) of \$158,444 in CY 1998. Tapestry needs to improve its system of accounting controls to ensure that the family planning surplus will be utilized to fund additional program costs as required by regulations. In this respect, Tapestry does not (1) segregate or reserve the family planning surplus, and (2) have written policies requiring surpluses to be spent on the program that generated the surplus. Tapestry officials believe that their history and mission provide sufficient assurance that surplus revenues will be used to further program objectives. However, Tapestry's history and mission do not guarantee that the surplus will be used to meet program objectives in the future. Tapestry's numerous programs, coupled with the lack of accounting controls, creates an inherent risk that the surplus could be absorbed by other programs. Furthermore, Tapestry's financial position creates uncertainty regarding Tapestry's ability to use the family planning surplus appropriately in future periods.

*The DHHS Notice of Grant Award to Tapestry requires program income to be used to fund additional costs of the program, in accordance with 45 CFR, Part 74.*

In CY 1998, Tapestry's family planning revenues totaled \$2,656,977 while related expenses totaled only \$2,498,533. These financial results created a family planning surplus of \$158,544. Tapestry's accounting system, however, does not segregate or reserve this surplus for future family planning expenses. Further, Tapestry does not have a written policy requiring surplus revenues to be spent on additional program costs relating to the program that generated the surplus.

Tapestry's numerous programs and financial position create an environment requiring sound management practices that (1) identify all excess project funds and (2) ensure that they are properly spent to further family planning program objectives in the future. In this respect,

- *Numerous Programs* – In CY 1998, Tapestry's family planning program represented only 44 percent of Tapestry's total program expenses. Tapestry's

other programs included HIV/AIDS, education and training and community support. Our review and analysis of Tapestry's general ledger as of December 31, 1998 shows a family planning surplus of \$158,444. However Tapestry's general ledger shows an organization-wide surplus of \$144,386. Since Tapestry does not identify and segregate the family planning surplus, it appears that \$14,058 had already been used for other purposes.

- *Financial Position* – Tapestry's certified financial statements for the year ended June 30, 1998 show current liabilities exceeding current assets by \$140,173. Thus, Tapestry's current assets, by themselves, would not be sufficient to fund Tapestry's current liabilities (liabilities due within one year). Six months later, at December 31, 1998, Tapestry's general ledger shows some improvement as current assets exceed current liabilities by approximately \$52,000. However, this was due to the one-time sale of land and buildings (See explanation below). Therefore, it is questionable whether Tapestry has the resources and, therefore the ability to fund the family planning program by \$158,544 (the amount of the CY 1998 family planning surplus) more than future family planning revenues.

Tapestry's management stated it believes Tapestry's history of operating in a deficit mode in order to service clients, as well as the organization's overall family planning mission, is enough assurance that surplus revenue will be used to further program objectives. Further, Tapestry's management believes their financial condition has improved during FY 1999.

Tapestry's prior performance and its overall mission are not a guarantee that the current family planning surplus will be used to fund additional program costs in the future. Tapestry, as explained above, is a multi-program organization with the family planning program representing only about 44 percent of total Tapestry expenses. Therefore, there is an inherent risk that the family planning surplus could be used in other programs. Further, Tapestry's FY 1999 financial statements indicate Tapestry's improved financial condition was due to a one-time sale of land and buildings, not operating activities.

While Tapestry's FY 1999 financial statements show current assets exceed current liabilities by \$161,319, the Statement of Cash Flows shows that Tapestry recognized proceeds of \$436,664 from the sale of land and buildings. Therefore, Tapestry would not have been able to reduce its current liabilities by \$436,664 without these proceeds and current liabilities would have exceeded current assets by \$275,345. Further, based on operations alone, Tapestry's financial position would have worsened in FY 1999. In this respect, the excess of current liabilities over current assets would have increased from \$140,173 in FY 1998 to \$275,345 in FY 1999 without the proceeds from the sale, creating a deficit for Tapestry. Therefore, Tapestry needs time to demonstrate that its operations are improving. Further complicating Tapestry's ability to fiscally improve is a potential liability of as much as \$871,966 due to the Commonwealth of Massachusetts. This was disclosed in a State Auditor's report, dated July 1999, and Tapestry's FY 1999 financial statements.

We have concerns as to whether Tapestry can assure that program objectives regarding the proper use of the family planning surplus can be met. As required by the *PHS Grants Policy Statement*, PHS grantees must employ sound management practice to ensure that program objectives are met and project funds are properly spent. In addition, a recent DHHS Grants Policy Directive dated September 14, 1999 requires grantees to expend program income before requesting additional Federal payments. Therefore, it is imperative that Tapestry implement policies and procedures that will ensure the family planning surplus is appropriately used in the future.

### **Recommendation**

We recommend that Tapestry develop and implement a system to ensure that family planning surplus revenues are used to further the family planning program.

### **Auditee Response**

Tapestry agreed to implement our recommendation. However, Tapestry states that since all divisions within its accounting system relate to family planning, any surpluses would be used to fund additional program costs.

### **Additional OAS Comments**

As stated above, not all activities of Tapestry are part of family planning or funded by Title X. Therefore, Tapestry's assertion that any surpluses will be used for additional program costs is not accurate considering that Tapestry has numerous programs, some of which are not Federal Title X covered services. For example, the Federal Title X award would not cover services provided under the 1) Needle Exchange Program; 2) Tobacco Cessation Program; and 3) Supplementary Food Program for Women, Infants, and Children. Further, without a system to separately identify Title X expenditures, Tapestry cannot assure that the Title X surplus will be used for family planning activities. In fact, \$14,058 of Tapestry's CY 1998 family planning surplus was absorbed by other operations. In addition, as stated on page six, Tapestry's current financial position creates uncertainty regarding Tapestry's ability to use the family planning surplus appropriately.

### **FEDERAL CASH DRAWDOWN PROCEDURES**

Tapestry needs to improve its system of requesting Title X funds to ensure federal cash drawdowns are related to immediate cash needs. In addition, Tapestry does not maintain written procedures to minimize the time elapsing between the transfer of funds to its bank account and the disbursement of funds for actual expenses. As a result, it is questionable whether Tapestry's monthly requests for cash are related to actual cash needs. For example, Tapestry frequently accumulated a monthly surplus in the family planning program during CY 1998. Further, Tapestry drew down the entire CY 1998 Title X award despite accumulating a CY 1998 surplus in the family planning program. Federal cash drawdown regulations are intended to maximize benefits of both grantees and the

Federal government. When a grantee, such as Tapestry, requests funds in excess of its needs, the grantee benefits at the expense of the Federal government.

*45 CFR, Part 74, Section 74.22 (b)(1)* states: "Recipients will be paid in advance, provided they maintain...: (i) Written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient...." *Section 74.22(b)(2)* states: "Unless inconsistent with statutory program purposes, cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed in accordance with actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs."

Based on concerns raised by the Office of Inspector General, National External Audit Review Center's (NEAR) review of Tapestry's June 30, 1998 audit report on compliance with federal regulations, the DHHS Office of Population Affairs, in a letter dated December 15, 1999, notified Tapestry that all Title X grant funds for Tapestry's family planning program will be restricted and available only on a cost reimbursement basis. Prior to that letter, Tapestry was on the advance method. Until complete resolution of the conditions noted in the NEAR review and satisfactory resolution of all issues outlined in this report, Tapestry will not be considered for the advance method of requesting federal funds. We are reporting on Tapestry's system for advancing funds because it was the system in place during our fieldwork and needs improvements prior to Tapestry becoming eligible for the advance system of requesting funds.

Tapestry generally requests 1/12<sup>th</sup> of the total Title X award each month. When we requested Tapestry to demonstrate how they ensure federal funds requested relate to actual needs, they could not provide any basis or support for the request. In this respect, Tapestry does not relate the request to the actual expenses incurred or expected to be incurred in that month. Rather, Tapestry officials theorized that expenses are incurred evenly throughout the year. However, Tapestry's monthly family planning expenses ranged from \$185,877 to \$229,700, a difference of as much as \$43,823 (Title X monthly expenses could not be reviewed, as Tapestry does not record expenses by funding source). Further, Tapestry accumulated surpluses in the family planning program in eight months during CY 1998. For six of those eight months, the surplus ranged from \$12,509 to \$107,266. Despite monthly surpluses and a year-end surplus, Tapestry's practice resulted in Tapestry requesting the entire Title X award during the year. Therefore, DHHS cannot be assured that funds requested are based on actual, immediate cash needs, or that Tapestry needed one hundred percent of the Title X award.

Federal cash drawdown regulations are intended to maximize benefits to both grantees and the Federal government. In this respect, the purpose of the regulations is to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal government and its grantees. When a grantee, such as Tapestry, requests funds in excess

of its needs, the grantee benefits at the expense of the Federal government. In this respect, the funds are not available for other use by the Federal government.

### **Recommendation**

Before Tapestry becomes eligible for the advance method of requesting funds, we recommend Tapestry develop and implement procedures that demonstrate requests for Federal Title X funds be related to minimum amounts needed and be as close as is feasible to the actual cash requirements for the Title X program.

### **Auditee Response**

Tapestry agreed to implement our recommendation. However, Tapestry does not believe it is drawing down Federal funds sooner than needed. In this respect, Tapestry stated that the Title X award was \$750,145 or \$62,512 per month and family planning expenses ranged between \$185,877 and \$229,700 per month. Tapestry stated that it requests one-twelfth of its Title X grant each month, which is clearly needed to cover the month's expenses. Therefore, Tapestry believes it is not drawing down federal funds sooner than needed.

### **Additional OAS Comments**

A system for withdrawing funds based only on "one-twelfth" of the award does not relate funds requested to actual cash needs. In this respect, Tapestry's current system does not consider program income or surpluses when requesting Title X funds. As noted on page eight, Tapestry accumulated a monthly family planning program surplus in eight months during 1998, yet Tapestry continued to request one-twelfth of the Title X award without considering the monthly surpluses. Therefore, Tapestry's current system of requesting Federal funds is not based on actual cash needs. A system for drawing down Federal funds based simply on one-twelfth of the award, despite the broad range of monthly revenues and expenses, provides no assurance that the request is related to actual cash needs.

### **ALLOCATION OF JOINTLY USED SPACE**

Tapestry needs to improve its cost allocation system to ensure all health service clinic space costs (rent, depreciation and utilities) are allocated to all benefiting programs. Tapestry does not allocate health service clinic space to all benefiting programs. Tapestry officials believed the use of the space by the Breast Health Project and the HIV/AIDS Program was immaterial and therefore did not charge health service clinic space costs to those programs. However, at the time of our initial inquiries, Tapestry had not performed a utilization study of the space to support its belief that the space costs are immaterial. Tapestry initiated a utilization study to determine the proper allocation of jointly used space. We believe a utilization study will enable Tapestry to accurately allocate jointly used space to all benefiting programs.

PHS Grants Policy Statement, section 7, *Allocation of Costs When Work is Closely Related*, states: “When salaries and/or other activities are being supported by two or more sources, issues arise as to how these costs should be allocated among the sources of support. It is HHS policy that if a cost benefits two or more projects or activities in proportions that can be determined, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, the costs may be allocated to the benefited projects on any reasonable basis.”

Contrary to the above PHS Grants Policy Statement, Tapestry does not allocate health service clinic space costs (rent, depreciation and utilities) to all benefiting programs. Tapestry’s cost allocation policy states: “...if more than one cost center is involved, allocation of occupancy is derived from the number of square feet occupied by the program and divided by the total square footage.” However, this policy does not provide additional guidance on how to further allocate space when more than one program utilizes the same space (jointly used) and where square feet per program cannot be determined.

Tapestry’s Breast Health Project and the HIV/AIDS Program are conducted in four of Tapestry’s ten health service clinic sites. At these four sites both programs utilize the same health service clinic space as the family planning program. Tapestry officials stated that they do not allocate space costs to the Breast Health Project or the HIV/AIDS Program for any of the four sites. Our review of the cost allocation schedules for two of those sites supported Tapestry official’s statements that they did not allocate any health service clinic space to either the Breast Health Project or the HIV/AIDS Program. Tapestry officials stated that they do not consider the use of health service clinic space by the Breast Health Project and the HIV/AIDS program to be material and did not allocate space to these programs. However, Tapestry officials had no information as to what costs they believed to be immaterial and have since initiated a utilization study. Initial results from that study indicate the HIV/AIDS Program uses health service clinic space between 3 and 10 hours per week, depending on the site. In addition, Breast Health Project clients represent approximately 10.5 percent of the total clients seen in the Northampton site. We believe the initial results indicate sufficient utilization by other programs to warrant an allocation of space costs to those programs.

In summary, DHHS policy requires that if a cost benefits two or more projects or activities in proportions that can be determined, the cost should be allocated to the projects based on the proportional benefit. Further, Tapestry is a multi program organization and Tapestry’s Breast Health Project and HIV/AIDS program are funded by different sources and have been ongoing for several years. These programs jointly utilize clinic space and Tapestry does allocate other administrative costs to these programs. However, Tapestry has yet to charge these programs for their fair share of the jointly used space. Until Tapestry develops a method to fairly allocate the jointly used space, the family planning program will absorb more than its fair share of space related costs.

## Recommendation

We recommend that Tapestry develop and implement policies and procedures that ensure space costs which benefit more than one program are allocated to each program on an equitable basis.

## Auditee Response

Tapestry agreed to implement our recommendation.

## SUPPORT FOR SALARIES AND WAGES

While Tapestry did improve its system for supporting salaries and wages charged to federal awards in 1998, the system still needs improvements. Our testing of support for payroll disclosed numerous instances where: 1) time sheets were missing; 2) summary master sheets were not certified; 3) time sheets and summary master sheets didn't agree; 4) payroll distribution disagreed with time sheets; and 5) required signatures were missing. The frequency of the errors diminished in September 1999. However, Tapestry cannot be assured that salary and wages were always allocated accurately to the appropriate program.

*The Office of Management and Budget Circular (OMB) A-122, Attachment B - Selected Items of Cost, Section 7.m states: "Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports as prescribed in subparagraph (2)." Subparagraph (2) states: "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards."*

Tapestry does not require individuals to apportion time between programs. Tapestry, however, requires individuals to file time sheets to account for 100 percent of hours worked on a bi-weekly basis. Tapestry then relies on responsible persons (supervisors) to summarize time and allocate time by program on master sheets. In this respect, supervisors, using time sheets and their own knowledge of the individual's responsibilities, summarize total hours by individual and allocate time to programs. Supervisors then submit the master sheets to payroll for posting and payment.

We initially selected a judgmental sample of payroll records from one pay period in January 1998 and one period in December 1998. We limited our testing to those employees whose salaries are charged, directly or indirectly, to the family planning program. For each of the payroll periods reviewed, we selected the payroll records of 45 of the 115 employees in January and 45 of the 110 employees in December who worked in programs or functions that are allocated, in whole or in part, to the family planning program. Tapestry officials felt significant improvements in payroll records were made

subsequent to the periods initially tested. Therefore, we selected an additional sample of 45 from the month of September 1999. The results of our testing are summarized below:

Category	No. of employees in		
	January 98	December 98	September 99
No individual time sheet	4	8	2
No hours certified on master sheet	8	6	1
Individual time sheet doesn't agree with master sheet	4	3	2
Individual time sheet hours don't agree with payroll labor distribution	7	4	3
Required signatures missing	1	14	0

The results of the testing showed numerous problems pertaining to individual time sheets, master sheets, and required signatures. The frequency of the errors diminished in September 1999, indicating improvement. However, these problems still raise questions regarding the accuracy of Tapestry's allocation of salaries and wages to benefiting programs. Considering that the responsible persons (supervisors) rely, in part, on individual employees' time sheets when preparing summary master sheets for the payroll allocation, it is imperative that the information on the individual time sheet is accurate and complete. At the same time, it is essential that supervisors summarize the time sheet information accurately. Continued improvements are necessary to ensure salaries and wages are allocated to benefiting programs in proportion to the benefits received.

**Recommendation**

Tapestry should continue to monitor support for payroll charges to ensure proper allocation of the salaries to the Title X award.

**Auditee Response**

Tapestry agreed to implement our recommendation.

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**Additional Auditee and OAS Comments**

Tapestry stated it is grateful that the audit found no cause to question the quality of its services or to request disallowance or return of Federal funds. However, these conclusions cannot be drawn from this report as this audit did not include a review of services provided by Tapestry or the allowability of claimed costs.